

WHATCOM COUNTY COMBINED SPECIAL PURPOSE DISTRICTS
Whatcom County, Washington
January 1, 1992 Through December 31, 1994

Schedule Of Findings) Whatcom County Water District No. 7

1. Whatcom County Water District No. 7 Should Improve Internal Controls Over The Cash Receipt And Customer Billing Systems And Avoid Beneficial Interests

During our review of Whatcom County Water District No. 7's system of accounting for utility revenues, we noted one person is acting as a commissioner, secretary, and the district manager. He is paid \$21,000 per year as the district manager/secretary and \$50 per meeting for being commissioner. His duties encompass nearly every aspect of the billing, receipting, and depositing functions. He is also responsible for reading and repairing meters and preparing the minutes of commissioner meetings. This results in a severe lack of segregation of duties, a beneficial interest, and incompatible duties. In addition, there were a number of procedural internal control weaknesses as follows:

- a. Listings used to perform meter readings, which ultimately serve as the basis for the customer's bill, are not maintained.
- b. When new customer charges are determined, documentation is not prepared or maintained to support the fees charged and received.
- c. Individual account histories are not maintained by the system. Documentation supporting changes made to customer accounts is not filled out or maintained. Thus, transactions may be changed without any record generated documenting the cause and/or reason.
- d. Utility payments are picked up from the post office box and are taken to the commissioner's home which serves as the district's office. Payments are not immediately receipted, posted, deposited or even secured in a safe or locked box. By not properly accounting for and securing these funds, they are at a greater risk for loss, theft or misappropriation.
- e. An adequate record system does not exist for tracing customer payments to final remittance to the county treasurer.
- f. The district has not implemented a control account for accounts receivable and does not utilize other reports to support or determine if each month's billings, receipts, and other transactions are properly recorded.
- g. Monthly county treasurer's reports are not reconciled to the district's records.

Although RCW 57.12.010 allows a reasonable sum to be paid to the secretary for clerical services, the duties described above clearly exceed what is normally expected of a board secretary and are more clearly described as a district manager. In addition,

the following RCW specifically prohibits municipal officers from receiving in excess of \$9,000 per year because to do so is considered a conflict of interest.

RCW 42.23.030 states in part:

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any person beneficially interested therein.

Certain exceptions are noted within the preceding RCW including the following:

. . . The total volume of such contract or contracts authorized in this subsection may exceed seven hundred fifty dollars in any calendar month but shall not exceed **nine thousand dollars in any calendar year**. (Emphasis ours)

RCW 43.09.200 which prescribes the system of accounting for local governments states in part:

. . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to prove the validity of every transaction

RCW 43.09.240 which applies to deposit of collections states in part:

. . . Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible

Due to the absence of an adequate internal control system over cash receipts and billings, no assurance can be given that all revenues due the district have been deposited with the county treasurer. These weaknesses reduce the district's control over public moneys and increases the risk of loss or misuse.

Whatcom County Water District No. 7 was initially a very small district with few customers and as such, found hiring a district manager to not be suitable. However, the district has since grown to over 400 customers and is expected to nearly double in the next few years. The district has not developed an appropriate system of controls to handle the increased responsibilities.

We recommend Whatcom County Water District No. 7 commissioners make the appropriate changes to the district's organization to alleviate the problems of a

beneficial interest, incompatible duties, and poor segregation of duties. We further recommend the district improve controls over the cash receipt and customer billing systems as follows:

- a. All listings used in reading water meters should be maintained in district files.
- b. Documentation should be prepared and maintained to support the fees charged and received for new customers.
- c. Account histories of customer account activity should be maintained. The district should maintain adequate documentation of adjustments made to customer's accounts including the reason the adjustment was made. All significant adjustments should show evidence of an independent commissioner's approval.
- d. Customer payments should be receipted immediately. Payments should be promptly posted and deposited upon receipt. The district should ensure the postings and deposits agree.
- e. To improve the record system, all deposits made in the district's depository account should reconcile to amounts recorded as paid and should directly correspond to the amounts submitted to the treasurer's office.
- f. The district should maintain an accounts receivable control account which should be reconciled to the individual customer accounts on a regular basis. Reports showing the detail of totals billed and received should be utilized.
- g. The district should reconcile their records with the treasurer's office records on a regular basis.